BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2017 in this Triennial Cost Allocation Proceeding Phase 2	A.15-07-014 (Filed July 8, 2015)

RESPONSE OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G), OFFICE OF RATEPAYER ADVOCATES, THE UTILITY REFORM NETWORK, CALIFORNIA MANUFACTURERS & TECHNOLOGY ASSOCIATION, CITY OF LONG BEACH GAS & OIL DEPARTMENT, CLEAN ENERGY FUELS CORP., INDICATED SHIPPERS, SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E), SOUTHERN CALIFORNIA GENERATION COALITION, SOUTHWEST GAS CORPORATION (U 905 G), AND THE WESTERN MANUFACTURED HOUSING COMMUNITIES ASSOCIATION TO RULING DIRECTING THE SETTLING PARTIES TO SUBMIT SPECIFIED INFORMATION REGARDING THE EFFECT OF THE SETTLEMENT AGREEMENT ON SAN DIEGO GAS & ELECTRIC COMPANY'S CORE CUSTOMERS

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Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), California Manufacturers & Technology Association (CMTA), City of Long Beach Gas & Oil Department (Long Beach), Clean Energy Fuels Corp. (Clean Energy), Indicated Shippers, Southern California Edison Company (SCE), Southern California Generation Coalition (SCGC), Southwest Gas Corporation (SWG), and The Western Manufactured Housing Communities Association (WMA) (collectively the Settling Parties) provide this Response to the *Administrative Law Judge's Ruling Directing the Settling Parties to Specified Information Regarding the Effect of the Settlement Agreement on San Diego Gas & Electric Company's Core Customers* (ALJ Ruling), filed on July 19, 2016.[1] The ALJ Ruling, in noting that most parties in this proceeding jointly filed a Settlement Agreement on May 27, 2016 that resolves a majority of the issues in this proceeding, directs the following:

[1] In accordance with Rule 1.8 of the Commission's Rules of Practice and Procedure SoCalGas and SDG&E have been authorized to submit this Response on behalf of all Settlement Parties.

> To help the Commission assess the Settlement Agreement, this ruling directs the Settling Parties to prepare, file, and serve a document that provides the information specified in Appendix A of this Ruling. The due date for the document required by this Ruling is July 27, 2016.

This Response provides the information requested in the ALJ Ruling.

I. RESPONSES TO THE ALJ RULING

The ALJ Ruling includes one appendix that encompasses the information being requested of Settling Parties. This Response addresses the following question posed in Appendix A of the Ruling.

1. **The Settlement Agreement at Appendix C, Table 1 (for SDG&E) shows Natural Gas Transportation Rate Revenues. Of relevance here, Table 1 shows that on January 1, 2015, Core Residential comprised 79.0% of SDG&E System Total revenues (Column C, Row 2 divided by Column C, Row 26). Under the Settlement Agreement, Core Residential will comprise 84.1% of SDG&E System Total revenues on January 1, 2017 (Column F, Row 2 divided by Column F, Row 26).**

   The same Table shows that on January 1, 2015, Core Commercial and Industrial (Core C&I) comprised 16.5% of SDG&E System Total revenues (Column C, Row 3 divided by Column C, Row 26). Under the Settlement Agreement, Core C&I will comprise 10.3% of SDG&E System Total revenues on January 1, 2017 (Column F, Row 3 divided by Column F, Row 26).

   a. **Please identify and explain the specific factors that cause the percentage of SDG&E System Total revenues allocated to Core Residential to increase under the Settlement Agreement from 79.0% on January 1, 2015 to 84.1% on January 1, 2017.**

SDG&E performs several major steps to derive the System Total revenues allocated to Core Residential customers, starting with the authorized System Base Margin. The table below shows the major steps. The text following the table contains explanation of the specific factors that cause the referenced increase in the percentage of SDG&E System Total revenues allocated to Core Residential customers.

Table: SDG&E Core Residential Percentages

Steps	1/1/2015	TCAP Settlement 1/1/2017
1. Base Margin	78.3%	79.1%
2. Base Margin after Transmission Systems Integration (SI)	83.9%	85.6%
3. Base Margin after SI and Other Operating Exp./Rev. (Other)	80.7%	82.9%
4. Allocated System Total Revenues (Base Margin after SI, Other, and Regulatory Accounts Amortization)	**79.0%**	**84.1%**

As shown in Step 1 in the table above, the share of SDG&E System Base Margin allocated to Residential customers increased from 78.3% to 79.1% between 1/1/2015 and 1/1/2017. This increase of 0.8% is due to the impact of updating the demand forecasts, marginal and embedded costs underlying the Settlement Agreement. The SDG&E System Base Margin is the same in both cases at $305.893 million.[2]

In Step 2, SDG&E's Base Margin is adjusted to incorporate the transfer of transmission costs for rate design purposes between SDG&E and SoCalGas associated with the utilities' Transmission Systems Integration (SI) process. Step 2 shows that the combined effects of updated demand forecasts, marginal and embedded costs and the SI process lead to Residential customers share to increase from 83.9% to 85.6%, an increase of 1.7%. The change in Residential customers' share due to SI is 0.9% (1.7% minus 0.8% in Step 1). The process of SI on 1/1/2017, relative to 1/1/2015, resulted in a net $3 million reduction in transmission costs allocated to SDG&E's Residential customers. Since SDG&E's Residential customers' share of transmission costs is approximately 35%, much lower than its share of Base Margin, a lower transmission cost allocation causes the Residential share of Base Margin after SI to increase on 1/1/2017.

Put another way, Residential share of Base Margin after SI in Step 2 can be thought of as a weighted average of its shares of Base Margin and transmission costs, with allocated Base

[2] Residential peak day demand, which is used to allocate distribution-related marginal cost revenue, is 2.2% lower on 1/1/2017 compared to 1/1/2015. This lower Residential peak demand forecast by itself would have lowered Residential customers' share of Base Margin; however, the higher share of Residential customers of updated marginal customer-related costs and embedded costs on 1/1/2017 more than offsets the effect of lower demand forecasts.

Margin and transmission costs as the respective weights. Lower allocated transmission cost in 1/1/2017 represents a lower weight applied to the share of allocated transmission costs. With no change in Base Margin, this leads to a higher Residential customers' share of Base Margin after SI.

Step 3 shows that the combined effect of the demand forecasts, marginal and embedded costs, SI, and Other Operating Expenses and Revenues was to increase Residential customers' share from 80.7% to 82.9%, an increase of 2.2%. Other Operating Expenses and Revenues account for 0.5% of the increase in Residential customers' share (2.2% minus 1.7% in Step 2).

Step 4 shows that Residential customers' share of System Total Revenue, combining the effects of all the four Steps--including the amortization of Regulatory Account Balances--increased from 79.0% to 84.1 %, an increase of 5.1%. The increase in Residential share attributable to Regulatory Account Balances is 2.9% (5.1% minus 2.2% in Step 3). Therefore, the change in Regulatory Account Balances is the single biggest factor explaining the increase in Residential customers' share of System Total Revenue. Among the Regulatory Accounts, the balance in the Core Fixed Cost Account (CFCA) is, by far, the most dominant one. On 1/1/2015, the Residential customers' share of the CFCA balance was an under-collection of $32.3 million; on 1/1/2017, the balance as presented in the TCAP was forecasted to be an over-collection of $9.0 million. Generally, the amortization of a regulatory account under-collection increases revenue requirement, and the amortization of an over-collection decreases revenue requirement. The Residential share of the CFCA balance is approximately 63%, which is allocated based on Equal Cents per Therm based on average year throughput, lower than its share of Base Margin. The reduction in the CFCA under-collection (from the swing in the CFCA balance from an under-collection in 2015 to a forecasted over-collection in 2017) reduces Residential revenue requirement; however, for the similar logic explained in Step 2 above, Residential customers' share of System Total Revenues increases on 1/1/2017 due to its CFCA share being lower than its Base Margin share.[3]

b. Please explain why it is reasonable in light of the record, consistent with the law, and in the public interest for the percentage of SDG&E System Total revenues allocated to Core Residential to increase under the Settlement Agreement compared to January 1, 2015.

The specific factors that cause the referenced increase in the percentage of SDG&E System Total revenues allocated to Core Residential customers are explained above. The Settlement Agreement followed the CPUC-authorized cost allocation methods and cost drivers in the derivation of SDG&E System Total revenues allocated to Core Residential customers. Further, the Settling Parties Response to the *Administrative Law Judge's Ruling Directing the Settling Parties to Submit a Comparison Exhibit and Other Information* submitted on July 5, 2016, discussed in detail why the marginal and embedded costs included in the Settlement Agreement are reasonable. The Settlement Agreement rates included the forecasted CFCA over-collection in 2017 referenced above. However, due to weather-driven uncertainty, the actual CFCA balance amortized in 2017 rates could turn out to be significantly under-collected, in which case the realized difference in the Residential Customers' share of SDG&E System Total revenue between 2015 and 2017 would be smaller than shown in the Settlement Agreement at Appendix C, Table 1 (for SDG&E).

It is, therefore, reasonable in light of the record, consistent with the law, and in the public interest for the percentage of SDG&E System Total revenues allocated to Core Residential to increase under the Settlement Agreement compared to January 1, 2015.

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[3] Compared to 1/1/2015, the Residential customer average year throughput forecast is 0.6% lower on 1/1/2017. Given this lower Residential throughput forecast, together with a higher Core C&I throughput forecast on 1/1/2017 relative to 1/1/2015, Residential customers' share of the benefit from the amortization of a forecasted CFCA over-collection is less on 1/1/2017 relative to 1/1/2015. Here, the lower Residential demand forecast contributes to the increase in Residential customers' share of the System Total Revenues.

c. **Please identify and explain the specific factors that cause the percentage of SDG&E System Total revenues allocated to Core C&I to decrease under the Settlement Agreement from 16.5% on January 1, 2015 to 10.3% on January 1, 2017.**

SDG&E performs the same major steps described in response to a. above to derive the System Total revenues allocated to Core C&I customers, starting with the authorized System Base Margin. The table below shows the major steps. The text following the table contains explanation of the specific factors that cause the referenced increase in the percentage of SDG&E System Total revenues allocated to Core C&I customers.

Table: SDG&E Core Commercial & Industrial (C&I) Percentages

Steps	1/1/2015	TCAP Settlement 01/01/2017
Base Margin	13.0%	11.4%
Base Margin after Transmission Systems Integration (SI)	12.9%	11.0%
Base Margin after SI and Other Operating Exp./Rev. (Other)	13.3%	11.5%
Allocated System Total Revenue (Base Margin after SI, Other, and Regulatory Accounts Amortization)	**16.5%**	**10.3%**

As shown in Step 1 in the table above, the share of SDG&E System Base Margin allocated to Core C&I customers decreased from 13.0% to 11.4% between 1/1/2015 and 1/1/2017. This decrease of 1.6% is due to the impact of updating the demand forecasts, marginal and embedded costs underlying the Settlement Agreement. The System Base Margin is the same in both cases at $305.893 million.

In Step 2, SDG&E's Base Margin is adjusted to incorporate the transfer of transmission costs for rate design purposes between SDG&E and SoCalGas associated with the utilities' SI process. Step 2 shows that the combined effects of updated demand forecasts, marginal and embedded costs and the SI process lead to Core C&I customers share to decrease from 12.9% to 11.0%, a decrease of 1.9%. The decrease in Core C&I customers' share due to SI is 0.3% (1.9% decrease minus1.6% decrease in Step 1).

Step 3 shows that the combined effects of the demand forecasts, marginal and embedded costs, SI, and Other Operating Expenses and Revenues was to decrease Core C&I customers' share from 13.3% to 11.5%, a decrease of 1.8%. Other Operating Expenses and Revenues account for a 0.1% increase in Core C&I customers' share (1.8% decrease minus 1.9% decrease in Step 2).

Step 4 shows that Core C&I customers' share of System Total Revenue, combining the effects of all the four Steps--including the amortization of Regulatory Account Balances--decreased from 16.5% to 10.3 %, an decrease of 6.2%. The decrease in Core C&I share attributable to Regulatory Account Balances is 4.4% (6.2% decrease minus 1.8% decrease in Step 3). As with Residential rates, the change in Regulatory Account Balances is the single biggest factor explaining the decrease in Core C&I customers' share of System Total Revenue, and again, the balance in the CFCA is, by far, the most dominant one. On 1/1/2015, the Core C&I customers' share of the CFCA balance was an under-collection of $17.8 million; on 1/1/2017, the balance as presented in the TCAP was forecasted to be an over-collection of $5.1 million. The Core C&I share of the CFCA balance is approximately 35%, much higher than its share of Base Margin. The reduction in the CFCA under-collection (from the swing in the CFCA balance from an under-collection in 2015 to a forecasted over-collection in 2017) reduces Core C&I revenue requirement; however, unlike the Residential customers' share of System Total Revenues, Core C&I customers' share of System Total Revenues decreases on 1/1/2017 due to its CFCA share being higher than its Base Margin share.

d. Please explain why it is reasonable in light of the record, consistent with the law, and in the public interest for the percentage of SDG&E System Total revenues allocated to Core C&I to decrease under the Settlement Agreement compared to January 1, 2015.

For the reasons discussed in response to Question 1.b above, it is reasonable in light of the record, consistent with the law, and in the public interest for the percentage of SDG&E

System Total revenues allocated to Core C/I to decrease under the Settlement Agreement compared to January 1, 2015.

II. CONCLUSION

The Settling Parties appreciate the opportunity to provide additional information as to why the Settlement is reasonable in light of the whole record, consistent with law, and promotes the public interest. The Settlement should be approved in its entirety by the Commission.

Respectfully submitted,

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